

CORPORATE AND POSTAL BUSINESS LAW SECTION
LAW DEPARTMENT



September 22, 2017

Stacy L. Ruble
Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001

Re: Docket Nos. R2014-6 and MC2014-21

In accordance with Commission Order Nos. 2097 and 4055, in Docket Nos. R2014-6 and MC2014-21, the Postal Service hereby submits the enclosed Data Collection Report on PHI Acquisition, Inc.'s Negotiated Service Agreement with the Postal Service. The Postal Service is filing the unredacted version of the report under seal, as it contains commercially sensitive information. The Postal Service herein incorporates by reference the original Application for Non-Public Treatment in this docket, for the protection of this material.

Very Truly Yours,

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**PHI ACQUISITIONS NEGOTIATED SERVICE AGREEMENT
DATA COLLECTION REPORT
(JULY 1, 2016 – JUNE 30, 2017)**

INTRODUCTION:

Pursuant to Order No. 2097 in Docket Nos. R2014-6 and MC2014-21, the United States Postal Service (“Postal Service”) presents its Data Collection Report (“DCR”) on the PHI Acquisitions, Inc.’s (“PHI”) Negotiated Service Agreement (“NSA”) with the Postal Service.

DATA COLLECTION REPORT:

1. PHI volumes entered by qualifying price category for the contract year.

See Appendix A, page 1 (1_Total Volume Revenue Yr. 3).

2. PHI postage paid by qualifying price category for the contract year.

See Appendix A, page 1 (1_Total Volume Revenue Yr. 3).

3. PHI package fulfillment volumes by service level.

See Appendix A, page 2 (2_Package Fulfillment).

4. Adjusted Annual Baseline Threshold and the resulting Quarterly Baseline Volumes that will be used for the next contract year to establish PHI eligibility for rebates and payment of fines, and the underlying calculations.

See Appendix A, page 3 (3_Contract Volume).

5. The rebate paid to or penalty paid by PHI (if any) and the calculations underlying their determination.

See Appendix A, page 4 (4_Year 3 Rebate). PHI earned an aggregate rebate of \$122.6 thousand on the eligible Standard Mail volume since it exceeded two quarterly aggregate volume thresholds during Agreement Year 3. Due to an error in the underlying data, which was detected during a routine internal review after payment of the rebate, PHI was actually paid an amount of \$123.1 thousand, an amount \$553.58 in excess of the amount earned. The data error affected only

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Quarter 3 of Agreement Year 3 and inflated reported revenues, leading to inflated revenue per piece figures, which are used to determine the rebate earned. The \$553.58 excess payment will be recovered by USPS and off-set against future rebate payments. If, as a result of a subsequent amendment, no additional rebate payments are made in the next two contract quarters, PHI will return the \$553.58 to the Postal Service via Electronic Funds Transfer. PHI did not participate in any other USPS volume/revenue growth incentive program during Agreement Year 3.

ADDITIONAL DATA REQUESTED BY THE COMMISSION PURSUANT TO ORDER NO. 2097:

- 1. Calculation of the change in net financial position of the Postal Service as a result of the PHI NSA, using the Commission's methodology with product elasticities.**

See Appendix A, page 5 (5_Commission's Methodology).

- 2. Calculation of the change in net financial position of the Postal Service as a result of the PHI NSA, using the Commission's methodology with elasticity specific to PHI NSA volume.**

See Appendix A, page 5a (5a_Commission's Methodology).

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- 3. PHI-specific costs, volumes, and revenues by qualifying price category for the contract year. If PHI-specific costs are not available, the source and derivation of the costs that are used shall be provided, including a discussion of the currency and reliability of those costs, and their suitability as a proxy for mailer-specific costs.**

See Appendix A, page 1 (1_Total Volume Revenue Yr. 3).

- 4. An analysis of the effects of the Agreement on the net overall contribution to the institutional costs of the Postal Service.**

See Appendix A, page 6 (6_USPS Net Value). Although Agreement Year 3 shows a negative impact to overall contribution, the agreement to date shows a net positive contribution of \$739.2 thousand. Appendix A, page 6 (6_USPS Net Value) shows volume and negative net contribution of \$122.6 thousand for Agreement Year 3.

Agreement Year 3 volume continues to exhibit PHI Standard Mail weighted average cost per piece that is higher than originally modelled in PRC Docket No. MC2014-21. The higher average per piece cost is the result of new rate categories and cost models for Flats Sequencing System (FSS) pieces, which were implemented during FY2015. Though the FSS rate categories were eliminated in January of 2017 (See Order No. 3610, at 16) the weighted average cost per piece for Agreement Year 3 still includes unit costs specifically estimated for pieces qualifying for the FSS rate categories.

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The Postal Service is fully aware of its responsibility for negotiating and overseeing NSAs, and ensuring that any Market Dominant NSA it enters into continues to improve the net financial position of the Postal Service. See 39 U.S.C. § 3622(c)(10)(A). Some discussions concerning amendments have occurred. These discussions should accelerate once the Postal Service has more accurate estimates of the FY2018 cost coverage for the Carrier Route product. The Postal Service wishes to amend the agreement as expeditiously as possible to ensure that, over its lifetime, the PHI NSA continues to have a net positive impact on the Postal Service's finances.

5. A discussion of the changes in operations of the Postal Service that result from the Agreement.

By limiting PHI Eligible Mail to Carrier Route flats (Saturation, High Density Plus, High Density, and Basic) which bear a full-service Intelligent Mail Barcode ("IMb"), the structure and eligibility requirements of the NSA create economies of scale and scope, which will enhance the preparation of all Flats mail. Other than these eligibility requirements, no components of this Agreement are specifically designed to enhance the performance of mail preparation, processing, transportation, or other functions.

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- 6. An analysis of the impact of the Agreement on the marketplace, including a discussion of any and all actions taken to protect the marketplace from unreasonable harm.**

The Postal Service monitors the performance of, and investigates significant changes in, mailing activity among large mailers including large retail, e-commerce, and catalog industry mailers. To date, no significant performance issues were observed that directly or indirectly relate to this NSA. Thus, we do not believe the NSA has caused unreasonable harm to the marketplace. While the Postal Service does not anticipate that this Agreement will in the future cause unreasonable harm to the marketplace, in the event any significant changes in mailing activity occur, we will investigate them and take appropriate action (when and if necessary) to protect the marketplace from unreasonable harm.

- 7. A list of all of PHI's acquisitions and divestitures that occurred during the contract year, and the volumes and threshold impacts associated with any such acquisitions or divestitures.**

There were no acquisition or divestiture activities by PHI during Agreement Year 3, and therefore, no volume and threshold impact.